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Tax Measures in UK Chancellor's 2013 Autumn Statement

Statement builds on economic stability, with a focus on certainty for business.

On 5 December, UK Chancellor of the Exchequer George Osborne released the 2013 Autumn Statement with measures designed to increase investment and drive growth. Although there had been some pressure to raise the rate of corporation tax—currently 23%—this has been resisted. Instead, a report was released showing that lower rates of business taxes increase investment and productivity. Consequently, the rate of corporation tax will reduce to 21% from April 2014 and will fall further to 20% in April 2015 as planned. Other important measures from the 2013 Autumn Statement are summarised below.

UK's Competitiveness

The Autumn Statement is fiscally neutral. Continuing the themes of the "Corporate Tax Road Map" released by the government in 2010, there is a strong focus on promoting certainty to businesses in addition to making the UK competitive. Consequently, the rate of fundamental change in the business tax area appears to be slowing, with the majority of the announcements designed either to tackle perceived avoidance or abuse or to provide incentives to build on the UK's "financial credibility," supporting the economic recovery with additional growth.

Onshore Oil and Gas

Because the effective rate of 62% tax for offshore oil and gas activities renders onshore exploration uneconomic, a new "onshore allowance" was announced. As proposed, up to 75% of relevant capital spend from 5 December 2013 will be granted as an allowance (instead of existing field allowances for onshore projects), resulting in a lower effective tax rate of 30%, by removing a portion of profits from the supplementary charge. The stated aim is to incentivise exploration and development of both conventional and unconventional hydrocarbons, including shale gas, and to put downward pressure on wholesale prices, increasing the UK's security of supply. The allowance generally will be available against profit from the same site (with some ability to transfer allowances) where production is or is expected to be less than seven million tonnes.

Stamp Duty

In March 2013, the government announced an intention to abolish stamp duty on shares traded on AIM. It was not expressly confirmed that this will go ahead, but it was referred to with the announcement that exchange traded funds will be encouraged to locate in the UK by the abolition of stamp duty on shares purchased in UK exchange traded funds.

Partnerships

In May 2013, a consultation was released addressing some perceived tax abuse involving partnerships. It has been announced that the government will go ahead with various proposals from the consultation, which are largely designed to catch professional firms and private equity firms in particular.

With immediate effect from 5 December 2013, some anti-avoidance rules will take effect to prevent tax-motivated profit allocation in partnerships with "mixed membership", i.e., both individuals and corporate members. From 6 April 2015, this will be backed up with further rules tackling partnerships where effective tax rates have been reduced by allocating profits and losses between the mixed members in such a way as to minimise taxes (while not reflecting who benefits from the profits).

However, following representations made during the consultation, it is now acknowledged that for Alternative Investment Fund Management (AIFM) partnerships (i.e., those operating within the EU AIFM regulations)—where some partners may be required to defer their distribution of profits for three to five years under the AIFM rules—there will be a substantial disadvantage to such parties if they are required to pay tax on these profits immediately. To address this, rules will be introduced from both an income tax and national insurance (NIC) perspective. Further details on how this will work are awaited.

From April 2014, rules will also be introduced to tax members of limited liability partnerships with little or no economic risk, who effectively have a fixed income, as if they were employees. This will remove current NIC advantages from their "disguised employment" arrangements. Further details on these proposals are awaited shortly.

Anti-Avoidance

The Autumn Statement announced a number of anti-avoidance measures. This has been a consistent theme in recent years, but disclosures of tax avoidance schemes reduced by 50% between 2011–2012 and 2012–2013, so the government's view is that the clampdown on abuse is working.

The announced changes focus on specific instances of abuse and include the following:

- Tightening of onshore intermediary rules to prevent people who are actually employees from being able to save NICs by treating themselves as self-employed
- Further restrictions on the use of "dual employment contracts," under which UK resident but non-domiciled individuals can avoid tax by artificially splitting their employment such that the non-UK part of the employment escapes UK tax
- "Fixing" the new Controlled Foreign Company rules to prevent shifting of profits relating to loan relationships outside the UK
- Ensuring the foreign tax credit rules work as intended by preventing access to double tax relief where a third party benefits from the same foreign tax repayment and by limiting foreign tax credits arising in connection with loan relationships to profits from those loan relationships

Contacts

If you have any questions or would like more information on the issues discussed in this LawFlash, please contact any of the following Morgan Lewis lawyers:

London

E.S. Kate Habershon	+44 (0)20 3201 5560	khabershon@morganlewis.com
Katerina Heal	+44 (0) 20 3201 5562	kheal@morganlewis.com

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